



Internal Audit Report

Countywide Fixed Assets March 2003



Audit Team Members

Joe Seratte, Audit Manager

Sandy Chockey, IT Audit Manager

Tom Fraser, Senior Auditor

Patra Carroll, Associate Auditor

Susan Huntley, Associate Auditor



Maricopa County

Internal Audit Department

301 West Jefferson St
Suite 1090
Phx, AZ 85003-2143
Phone: 602-506-1585
Fax: 602-506-8957
www.maricopa.gov

March 18, 2003

Fulton Brock, Chairman, Board of Supervisors
Don Stapley, Supervisor, District II
Andrew Kunasek, Supervisor, District III
Max W. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We have completed our FY 2002-03 review of the Countywide Fixed Asset Cycle. The audit was performed in accordance with the annual audit plan that was approved by the Board of Supervisors.

The highlights of this report include the following:

- Potentially sensitive or proprietary data files are not effectively removed from surplus or retired computers. These files could become available to the public.
- Year-end physical inventories are not effectively performed and need to be improved.
- Asset accountability needs to be improved through enhanced policies, incentives, and performance measures.

Attached are the report summary, detailed findings, recommendations, and management's response. We have reviewed this information with the Department of Finance and Equipment Services Department and appreciate the excellent cooperation provided by all County employees involved. If you have questions, or wish to discuss items presented in this report, please contact Joe Seratte at 506-6092.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

(Blank Page)

Table of Contents

Executive Summary	1
Introduction	2
Asset Acquisition	6
Asset Stewardship	8
Asset Disposal	10
Asset Disposal: Data Security.	13
Department Response	16

Executive Summary

Asset Acquisition (Page 7)

Two of four asset acquisition tests found that some County assets are not accurately recorded in the County's fixed asset system. Comparisons to independent asset listings identified vehicles and computer equipment that had not been recorded. This control weakness increases the likelihood that assets could be lost or stolen. The Department of Finance should coordinate fixed asset policies with Equipment Services and Technology Financing Program to ensure that departmental property managers receive consistent guidance in properly recording acquired fixed assets.

Asset Stewardship (Page 9)

While performing year-end physical inventories, some County departments have removed active assets in error, failed to adequately identify land and temporary assets, and have used disposal forms improperly to balance inventory records. Failure to accurately account for fixed assets increases the likelihood that assets will be lost or misdirected. County management, Department of Finance, and user departments should work together to elevate the awareness and importance of fixed asset management. Departments should design policies, incentives, and performance measures to ensure assets are effectively managed.

Asset Disposal (Page 11)

Our review of asset disposals found that disposal forms are processed timely, assets are accurately removed from the system, and assets are disposed of only after exhausting their utility. However, many assets still in service were removed from the County's fixed asset system in error. Also, 85 per cent of County assets are disposed during the year-end inventory process, which decreases accountability and causes lost and stolen assets to be underreported. The Department of Finance should make appropriate changes to the Fixed Asset Property Manual and training class curriculum and develop a plan to ensure that department managers actively review disposal forms prior to processing.

Asset Disposal – Data Security (See Page 14)

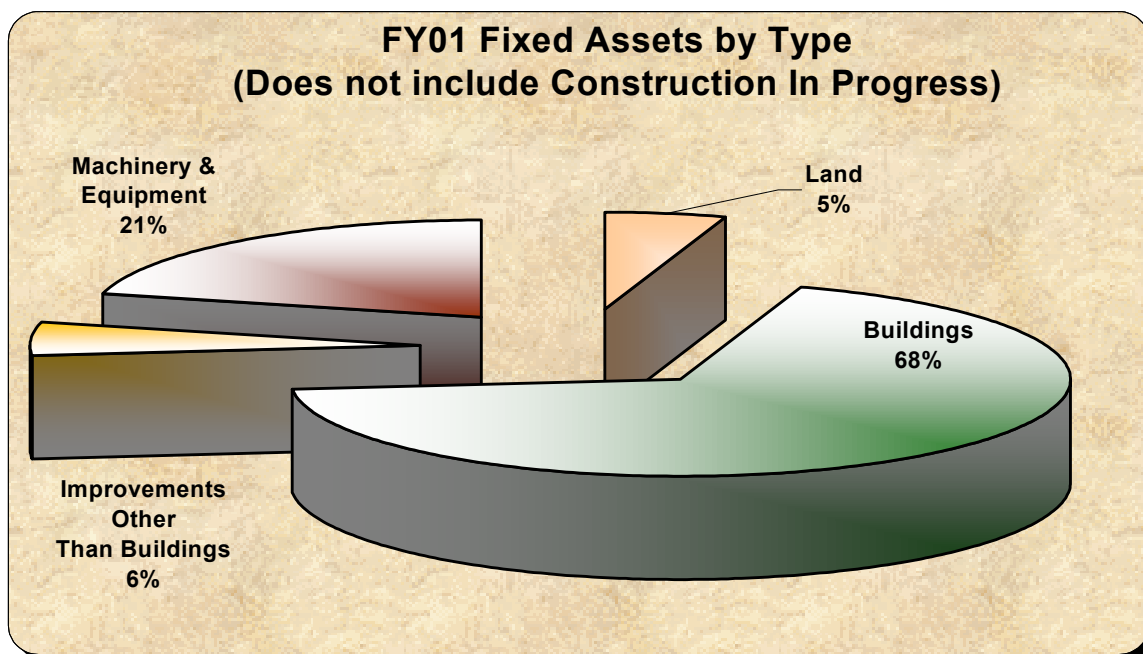
The County has not developed formal policies and procedures to ensure that data and applications are completely deleted from retired personal computers. Our testing recovered files from personal computers surplused to the Maricopa County Sheriff Office warehouse. Proprietary or sensitive County information residing on surplused personal computer hard drives could become available to third parties. The County Chief Information Officer should coordinate the establishment of comprehensive data destruction policies and procedures. Maricopa County does not have formal policies and procedures that ensure data and applications are completely deleted from retired personal computers.

Introduction

Background

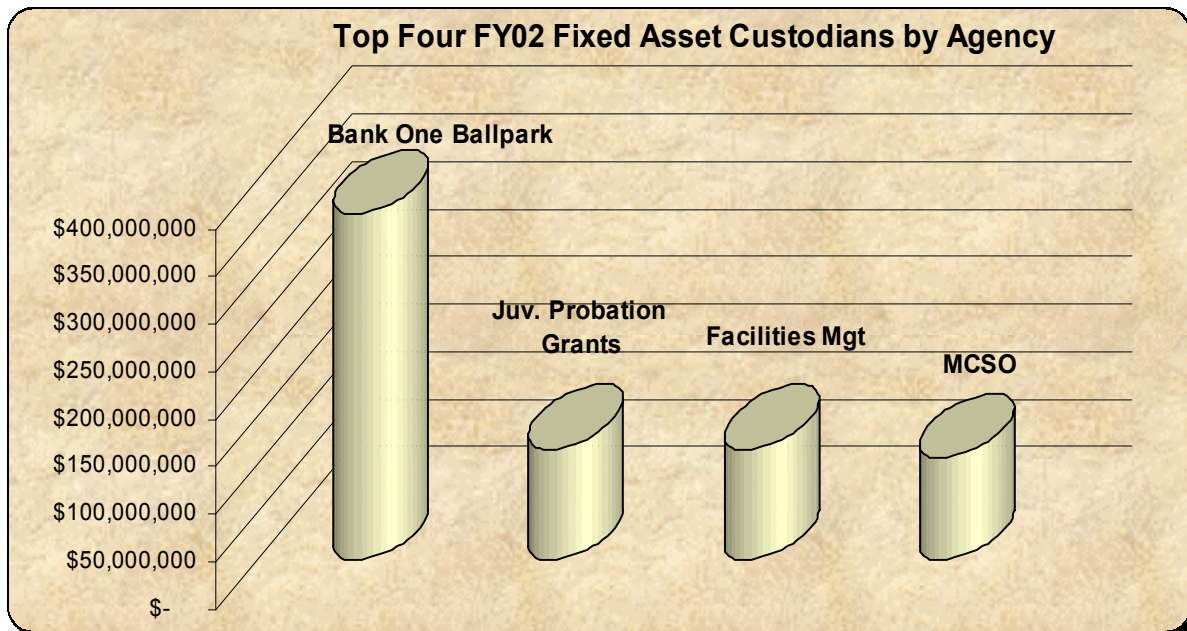
The Internal Audit Department's objective in this audit was to identify issues that would improve Maricopa County's (County) fixed asset process. While the Department of Finance (DOF) administers and records the receipt, transfer, and disposal of fixed assets, each department is responsible for reporting, maintaining, and effectively using these assets. Departments' fixed asset property managers and liaisons carry out the routine management of fixed assets.

The County's fixed asset threshold includes items costing more than \$5,000 and lasting more than one year. Governmental Accounting Standards, regulating the County's FY 2000-01 Comprehensive Annual Financial Report (CAFR), require fixed assets to be reported in the General Fixed Asset Account Group at acquisition value, which includes costs necessary to bring the assets into production. These costs include legal fees, installation charges, and other related expenditures. Fixed assets are categorized as land, buildings, improvements other than buildings, and machinery and equipment. The FY 2000-01 breakdown by asset category is depicted below.



Most of the County's fixed asset dollars are invested in buildings. Fixed assets categorized as "Improvements Other Than Buildings" include items that improve the usefulness of County owned land. Boat ramps, playground surfacing, and hiking trails are examples. Fixed asset utilization varies widely throughout the County.

The chart below shows the top four County agencies in terms of fixed asset ownership. Figures are taken from the FY 2001-02 Fixed Asset Sub-System (FASS).



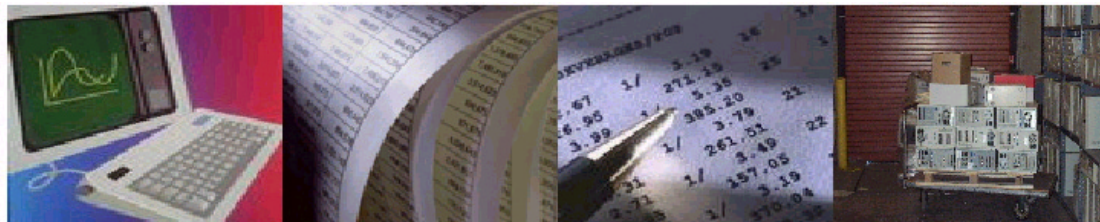
GASB 34

The Governmental Accounting Standards Board Statement (GASB) 34 will significantly impact fixed asset reporting requirements. Beginning with the FY 2001-02 CAFR, the County will phase in implementation of these standards. GASB 34 fixed asset reporting requirements will include the following changes:

<i>Current Treatment</i>	<i>Treatment Under GASB 34</i>
Fixed Assets are reported at cost.	Fixed Assets are fully depreciated.
Fixed Assets are reported in the General Fixed Asset Account Group (GFAAG) valued at historical cost, while related expenditures are fully reported the year of the transaction.	Fixed Assets are reported in the Government Wide Statements (net of depreciation); no GFAAG presentation.
Infrastructure assets (immovable fixed assets such as highways, bridges, and sidewalks) are not reported in the CAFR.	Infrastructure assets are reported in the Net Asset portion of the Government Wide Statements.

Fixed Asset Cycle

We reviewed each aspect of the Fixed Asset Cycle, identifying major components and related controls. The graph below depicts key operational components and the associated controls:



Asset Acquisition	Monthly Reconciliation and Certification	Annual Inventory	Disposal
Department prepares Acquisition Packet, assigns fixed asset number, and applies fixed asset tag to new acquisition.	DOF sends department a list of all newly acquired fixed assets; departments validate list and place asset in service.	Departments perform a physical inventory of all fixed assets, confirming DOF fixed asset records.	Department completes Asset Disposal Form. Asset transfers to Warehouse and DOF removes from FASS.

Controllable Assets

Besides conducting fixed asset testings, we also reviewed departmental controls over highly mobile items such as laptops, projectors, and Personal Data Assistants (PDA's). The County Fixed Asset Property Manual strongly recommends that departments maintain a list of controllable assets that do not meet the capitalization threshold of \$5,000. Our physical inventory of 69 technology assets within three departments did not identify any missing items. Each property manager was readily able to identify and locate the sampled items requested. All three departments maintain a departmental Inventory Control Listing.

County-wide Training Opportunities

DOF offers formal quarterly training opportunities to all County employees responsible for the custody and management of fixed assets. DOF also publishes the Fixed Asset Property Manual, which is available on the EBC and in hard copy form. In addition, a monthly Reconciliation Status Report is produced and distributed to all County Directors, Elected Officials, Department Directors, and the County Administrative Officer.

Although regular opportunities exist for training and reporting, we found several common factors that influence fixed asset reporting accuracy and physical management:

- Based on our survey of Property Managers and Fixed Asset Liaisons, only 29 out of 43 had attended the Fixed Asset training facilitated by DOF.
- The County's fixed asset cycle is decentralized, requiring departments to accurately report and physically maintain all assets under their custody.
- Few resources or incentives are devoted to departmental fixed asset management, which is generally delegated as a secondary duty.

These issues, along with findings detailed in the audit report, can be effectively addressed through development and delivery of a Countywide facilitated workshop. Internal Audit will work with DOF and County departments to design and deliver Control Self Assessment fixed asset training workshops in the current fiscal year.

Scope and Methodology

Our audit objectives were to:

- Verify the accuracy of the FASS through comparison with General Ledger expenditures and other County databases.
- Confirm the timely removal of disposed assets from the FASS while verifying that only obsolete or fully exhausted assets are disposed.
- Verify that all County data is removed from the hard drives of discarded computers using appropriate "data scrubbing" utilities.
- Validate recorded value of land assets in the FASS.
- Determine the appropriate status (fixed asset or operational expenditure) of each asset in the FASS coded with a temporary fixed asset number and an acquisition date more than one year old.
- Confirm that custodial departments appropriately monitor highly mobile assets.
- Determine if P-Card fixed assets purchases are appropriately recorded in the FASS.
- Identify risks in the fixed asset cycle and pinpoint solutions or improvements.

This Countywide fixed asset audit considered all aspects of the Fixed Asset Cycle. Audit testing was based on the FY 2001-02 FASS. We excluded the following from our work:

- Final disposition of disposed assets after receipt by the Maricopa County Sheriff's Office (MCSO) Warehouse. A review of controls over the warehouse will be performed during the FY 2002-03 MCSO audit.
- Identification of issues pertaining to the Maricopa Integrated Health System (MIHS). Significant differences exist in the control environment, financial system, and control processes within MIHS compared to the rest of the County.

This audit was performed in accordance with Government Auditing Standards.

Issue 1 Asset Acquisition

Summary

Two of four asset acquisition tests found that some County assets are not accurately recorded in the County's fixed asset system. Comparisons to independent asset listings identified vehicles and computer equipment that had not been recorded. This control weakness increases the likelihood that assets could be lost or stolen. The Department of Finance should coordinate fixed asset policies with Equipment Services and Technology Financing Program to ensure that departmental property managers receive consistent guidance in properly recording acquired fixed assets.

Equipment Services and TFP Database Comparison

To search for unrecorded fixed assets, we compared assets in the FASS to two independent asset listings. We compared vehicles listed in the FASS to a vehicle listing maintained by Equipment Services (ES) on the FASTER system. We also compared computer equipment listed in the FASS to a listing maintained by the Chief Information Officer (CIO) through the Technology Financing Program (TFP). In both cases, we found assets in service that were not recorded in the FASS. A quick summary of test results is shown below:

Database	Unrecorded Assets	Dollar Value
Equipment Services	18	\$ 604,963
Technology Financing Program	5	\$ 301,778
Total	23	\$ 906,741

Equipment Services Department

Based on our initial comparison of the ES database (FASTER) to the FASS and additional follow-up with DOF, there are approximately 95 vehicles reported in FASTER system that could not be initially traced to the FASS. Further research on a sample of 34 vehicles validated that 18 were not accurately recorded in the FASS. Test sample results indicate that a significant number of vehicles may not have been recorded in the FASS. Some test sample vehicles were acquired as long ago as 1995, but had not yet been recorded. Two of the three effected departments had identified the vehicles during the FY 2001-02 fixed asset physical inventory but had not completed acquisition packets to add the vehicles to the FASS. The third department was unable to locate 10 of its vehicles during the FY 2001-02 year-end inventory and removed the vehicles from FASS records even though the department was actively using the vehicles.

Technology Financing Program

We compared all items in the TFP database over \$5,000 to the FASS and identified five assets having a total value of \$301,778 that were not recorded in the FASS. Department Property Managers stated they understood that the TFP coordinator had prepared the appropriate acquisition packet. Written procedures have not been developed to determine how DOF will receive fixed asset information for items acquired through the TFP.

Procurement Cards – No Exceptions

We reviewed department transaction logs for all FY 2000-01 Procurement Card (P-card) transactions greater than \$5,000 and found no fixed assets acquired with a County P-card. Sampled transactions included copy machine lease payments, multiple item purchases, and legal research subscription services. No exceptions were found through purchase card testing.

General Ledger Comparison – No Exceptions

We identified a sample of 25 general ledger expenditures greater than \$5,000 that had not been coded as a fixed asset. We manually reviewed each Payment Voucher associated with the transactions and confirmed that none of the questioned transactions were unrecorded fixed assets. No exceptions were found through general ledger testing.

Effect on County

Unrecorded fixed assets increase the likelihood that the assets will be lost or misappropriated. In addition, assets must be accurately recorded to meet financial reporting requirements. Strong internal controls and accurate property records are necessary to maintain accountability over expenditures of public funds and ensure the effective use of County assets.

Recommendation

DOF should:

- A. Coordinate fixed asset policies with ES and TFP to ensure that departmental property managers receive consistent guidance in properly recording vehicles and TFP acquired technology equipment.
- B. Consider using the ES and TFP databases to verify that all capital vehicle and leased technology equipment are accounted for in the FASS.

Issue 2 Asset Stewardship

Summary

While performing year-end physical inventories, some County departments have removed active assets in error, failed to adequately identify land and temporary assets, and have used disposal forms improperly to balance inventory records. Failure to accurately account for fixed assets increases the likelihood that assets will be lost or misdirected. County management, Department of Finance, and user departments should work together to elevate the awareness and importance of fixed asset management. Departments should design policies, incentives, and performance measures to ensure assets are effectively managed.

Year-end Physical Inventories

The County's Fixed Asset Manual requires departments and offices to perform a physical inventory each year. Assets are to be physically verified and compared to the FASS listing provided by DOF. Departments then make any additions or deletions to DOF records to reflect actual assets on hand. The Director, Elected Official, or Chief Officer must review the completed inventory and document their approval.

Our review identified several issues surrounding year-end physical inventories. Departments complete 85% of asset disposals during year-end. Since most assets are "traded in" for new assets, disposals should roughly coincide with the asset acquisitions. However, it appears most departments do not complete disposal forms until year-end inventory, when they note the asset is no longer in their area. This makes it difficult to identify assets that have been lost or misdirected.

We found one significant instance where assets had been removed from the FASS in error. The assets, in fact, were still actively in use. Assets removed from the FASS in error include a \$675,000 building and 20 new vehicles. The departmental authority approved the removals in each case.

We also tested land assets included in the approved inventories. We found that department authorities could not validate the value, location, or even the existence of the land parcels.



This County-owned parcel is valued at \$0.0 in the County's financial system

Land Valuation

The FASS lists 79 parcels of County-owned land valued at \$1,500 or less. The average carrying value is \$545, and several parcels are valued at \$0. County policies, and accounting practice, require assets to be listed at acquisition cost or, if donated, at fair market value. Responsible departments could not validate the carrying cost of the parcels and, in some cases, could not verify the location or existence of the land. All parcels were acquired prior to 1977. Even though the value, location, or existence of County-owned land was not verified, user departments routinely sign off on year-end inventories as accurate. In preparation for GASB 34 financial statement reporting changes, DOF initiated a review of land values prior to our audit.

Temporary Fixed Asset Numbers

DOF assigns temporary asset numbers to unidentified expenditures over the \$5,000 fixed asset threshold. The temporary assets are to be researched, validated and, if appropriate, assigned a permanent fixed asset number. After the FY 2001-02 year-end physical inventory, the FASS listed 127 “temporary” assets which had remained unidentified on the FASS for more than one year. Temporary fixed assets are included in the FASS for CAFR reporting purposes.

Recommendation

County Management should:

- A.** Consider increasing Director awareness of the fixed asset cycle in management meetings, supervisor school, and other appropriate venues.
- B.** Elevating substantive fixed asset controls to a countywide policy statement (similar to Administrative Policy A2500 on Petty Cash).
- C.** Encourage department heads to actively participate in the review and verification of year-end physical inventories through establishing performance measures for asset accountability.

DOF should:

- D.** Work with County departments and the Real Estate division to document presently unknown land values and verify continued County ownership.
- E.** Update the Fixed Asset Property Manual to include the differences between land assets and easements, and steps necessary to reconcile temporary fixed asset numbers.

County Departments holding land assets should:

- F.** Maintain appropriate documentation on all land assets and separately identify all easements for GASB 34 reporting purposes.

Issue 3 Asset Disposal

Summary

Our review of asset disposals found that disposal forms are processed timely, assets are accurately removed from the system, and assets are disposed of only after exhausting their utility. However, many assets still in service were removed from the Fixed Asset Sub-System in error. Also, 85 per cent of County assets are disposed during the year-end inventory process, which decreases accountability and causes lost and stolen assets to be underreported. The Department of Finance should make appropriate changes to the Fixed Asset Property Manual and training class curriculum and develop a plan to ensure that department managers actively review disposal forms prior to processing.

Useful Life Testing – No Exceptions

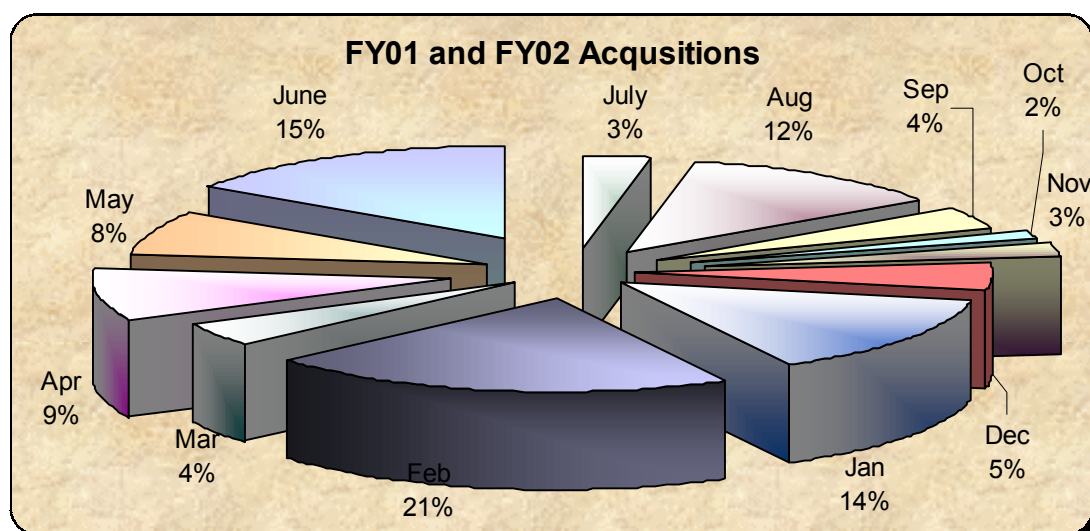
We used Computer Assisted Audit Techniques (CAAT) to identify high-risk assets for testing the disposal process. We isolated all assets that were disposed within one year of acquisition, or that had been used less than 50 per cent of the asset's stated useful life. Our objective was to verify if the County uses assets effectively and economically prior to disposal. We tested a sample of these assets and found no instances of assets retired inappropriately.

Disposal Process Weakness

The useful life test did show department assets, still in use, that were removed from the FASS in error. The assets included a \$625,000 building and 20 vehicles purchased during FY 2001-02. The assets were taken off the FASS in error as a result of the FY 2001-02 physical inventories, which were performed by department personnel and approved by appropriate authorities.

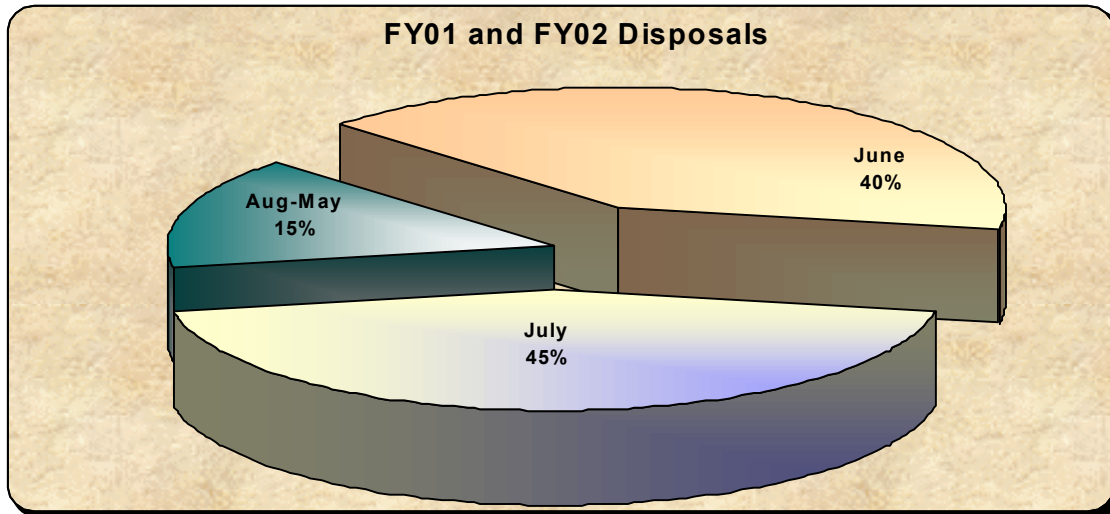
Asset Acquisitions

County fixed assets are purchased consistently throughout the fiscal year. The pie chart below shows the timing of assets purchases for fiscal years 2000-01 and 2001-02.



Asset Disposals

However, the timing of asset disposals is grouped around fiscal year-end. In fiscal years 2000-01 and 2001-02, 85 per cent of asset disposals took place at fiscal year-end (June and July).



The ten-month period, from August to May, account for only 15 per cent of asset disposals. This statistic, along with interviews with department property managers, indicates that many assets are removed from the FASS as a result of the year-end physical inventory.

Lost and Stolen Assets

County Policy A2230 states that lost or stolen assets greater than \$1,000 should be reported to the Risk Management Department. Records show that 40 assets were lost or stolen during FY 2000-01 and FY 2001-02. The Risk Management Department does not maintain asset costs or descriptions with which to estimate asset values. However, within the same period, the County expended \$25.4 million for equipment and vehicles categorized as fixed assets. Based on the volume of County Fixed Asset expenditures, we conclude that not all lost or misdirected County assets are being accurately identified and reported.

Some departments that cannot locate an asset during the year-end physical inventory appear to simply remove the asset from the FASS list by completing an asset disposal form. While the disposal form causes FASS records to reflect assets on hand, disposition coding identifying the fate of the asset is either not populated by the department or is frequently entered on a default basis as "Other".

Negative Impact

Without maintaining accurate fixed asset records, County departments cannot ensure proper safeguarding, reporting, and accountability of County property and equipment. Failure to adequately control fixed assets increases the possibility that County assets will be lost or misused without detection.

Recommendation

DOF should consider:

- A.** Developing a procedure to record asset disposal on a more timely and accurate basis and reflect these changes in the Fixed Asset Property Manual.
- B.** Revising the Fixed Asset Property Manual to include a link or reference to Administrative Policy A2230 (reporting lost/stolen items) and incorporating these procedures in the DOF quarterly fixed asset training.
- C.** Initiate a process to identify assets lost or stolen during the FA cycle.

Issue 4 Asset Disposal: Data Security

Summary

The County has not developed formal policies and procedures to ensure that data and applications are completely deleted from retired personal computers. Our testing recovered files from personal computers surplused to the Maricopa County Sheriff Office warehouse. Proprietary or sensitive County information residing on surplused personal computer hard drives could become available to third parties. The County Chief Information Officer should coordinate the establishment of comprehensive data destruction policies and procedures. Maricopa County does not have formal policies and procedures that ensure data and applications are completely deleted from retired personal computers.

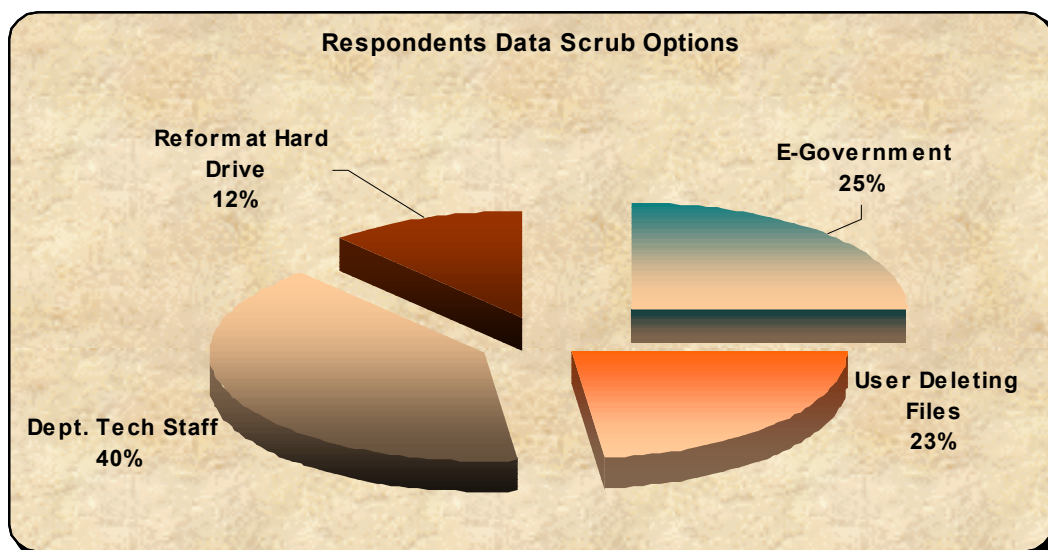
Criteria

Software applications and operating systems are licensed to the County and may not be passed on when the County sells surplused computer hardware. In addition, various County departments maintain sensitive information (e.g., social security numbers) on computers. This data should be removed from retired computers before these are sold, or released to third parties, in order to limit the risk of accidental disclosure of highly sensitive or proprietary information.

Policy and Procedures

The County has not developed a comprehensive policy or procedures to ensure that sensitive or proprietary data cannot be retrieved from surplused computers. Our survey of County property managers and fixed asset liaisons found that 15 percent of County departments do not subject their retired personal computers to any type of data removal.

County departments that attempt to “scrub” their hard-drives use a variety of methods to remove data from surplused computers. Some methods are not effective. Data scrubbing methods are shown below.



In our survey, County departments indicated they used the following methods for data scrubbing:

- Reformatting hard drives (12%).
- Deleting user files (23%).
- Scrubbing data through department “Tech” (40%).
- Scrubbing data through the Automation Technology Center (25%).

The results of the survey show that at least 48 per cent of surplused personal computers are subjected to ineffective data scrubbing procedures and may contain sensitive or proprietary files.

Actual Recovered Data

We selected four surplused laptops from the MCSO warehouse for testing. Our objective was to determine if the purchasers of the surplused computers could potentially recover data from the hard drives. Using off-the-shelf file recovery software, we recovered a large number of operating system files from each of the four laptops tested.

The department tech attempted to scrub the computer by reformatting the hard drive. We found no sensitive County information on the hard drives.

ATC data scrubbing software appears to be effective. We obtained the data scrubbing software used by the County ATC. We scrubbed the hard drives of the four sampled computers and tested them again. No data was recovered.



Surplused laptops at MCSO warehouse contained recoverable files

Recommendation

The County CIO should:

- A. Encourage PC/LAN groups to develop a standard set of policies and procedures for personal computer retirement and hard drive data destruction. The policies should include appropriate software tools and related data destruction procedures.
- B. Develop criteria for data destruction that takes into consideration department data sensitivity. Certain departments may have highly sensitive data on hard drives that would necessitate destruction of the hard drive to prevent accidental disclosure of the data.

(Blank Page)

Department Response



Maricopa County

Department of Finance

Tom Manos

Chief Financial Officer
301 West Jefferson Street
Suite 950
Phoenix, AZ 85003-2278
Phone: 602.506-3561
Fax: 602.506-4451
www.maricopa.gov

February 25, 2003

Ross L. Tate, County Auditor
301 W. Jefferson, 10th Floor
Phoenix, AZ 85003

Mr. Tate:

We have completed our review of the Countywide Fixed Assets Report prepared by Internal Audit. Your recommendations have been considered and our response has been forwarded for inclusion with the final report.

If you have any questions, please contact Shelby Scharbach at 506-1367.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom", written over a horizontal line.

Tom Manos
Chief Financial Officer

Issue #1 Asset Acquisition

Two of four asset acquisition tests found that some County assets are not accurately recorded in the County's fixed asset system (FASS). Comparisons to independent asset listings, maintained by the Equipment Services Department (ES) and the Technology Financing Program (TFP), identified vehicles and computer equipment that had not been recorded. This control weakness increases the likelihood that assets could be lost or stolen. The Department of Finance (DOF) should coordinate fixed asset policies with ES and TFP to ensure that departmental property managers receive consistent guidance in properly recording acquired fixed assets.

Response: Concur.

Recommendation A: The DOF should coordinate fixed asset policies with ES and TFP to ensure that departmental property managers receive consistent guidance in properly recording vehicles and TFP acquired technology equipment.

Response: Concur - in process. The revised Property Manual will include a section on the TFP and ES programs to ensure a clear understanding.

Target Completion Date: 3/14/03

Benefits/Costs: The revised Property Manual will provide a clear understanding regarding the policy and procedures associated with assets purchased through the TFP and ES. There are no costs associated with implementing this recommendation.

Recommendation B: Consider using the ES and TFP databases to verify that all capital vehicles and leased technology equipment are accounted for in the FASS.

Response: Concur - in process. A reconciliation of both the ES and TFP databases has been initiated. In regards to the ES database, to date, only 91 assets were not immediately identified utilizing the vehicle ID number, Asset Number and original purchase price. The DOF and ES will continue to work together to reconcile these assets. In regards to the TFP database, the discrepancies have been identified and will be corrected.

Target Completion Date: 3/28/03

Benefits/Costs: Conducting a reconciliation of the TFP and ES databases will reduce the opportunity for lost or misappropriated assets. The implementation of the additional reconciliations of the TFP and ES databases will provide stronger internal controls and increase the accuracy of the property records. Thereby, ensuring that accurate financial information is reported. Conducting these reconciliations does not replace the department's responsibility for the stewardship of assets. In fact, each department has the direct responsibility to ensure all assets are accounted for during the annual validation process (inventory).

Issue #2 Asset Stewardship

While performing year-end physical inventories, some County departments have removed active assets in error, failed to adequately identify land and temporary assets, and have used disposal forms improperly to balance inventory records. Failure to accurately account for fixed assets increases the likelihood that assets will be lost or misdirected. County management, DOF, and user departments should work together to elevate the awareness and importance of fixed asset management. Departments should design policies, incentives, and performance measures to ensure assets are effectively managed.

Response: Concur.

Recommendation A: County Management should consider increasing Director awareness of the fixed asset cycle in management meetings, supervisor school, and other appropriate venues.

Response: Concur. County Management should require that all Fixed Asset Property Managers and other individuals involved in the process attend the Fixed Asset training class. In addition to the Quarterly Training Catalog, the DOF is willing to conduct specialized training for departments.

Target Completion Date: N/A

Benefits/Costs: The goal of Maricopa County should be to have well trained staff in all positions to ensure an effectively run operation. Property Managers and other individuals involved in the process of capital procurement need to have the knowledge and tools to do their job. There are no additional costs associated with the implementation of this recommendation.

Recommendation B: County Management should elevate substantive fixed asset controls to a countywide policy statement (similar to Administrative Policy A2500 on Petty Cash).

Response: Concur. The DOF will submit to the BOS a formal policy and include the Fixed Asset Property Manual to be adopted as a countywide policy statement.

Target Completion Date: 3/28/03

Benefits/Costs: Once the BOS has adopted the Fixed Asset Policy and Fixed Asset Property Manual, it will provide the basis for departmental accountability. There are no costs associated with the implementation

Recommendation C: County Management should encourage department heads to actively participate in the review and verification of year-end physical inventories through establishing performance measures for asset accountability.

Response: Concur. The DOF will prepare and submit a quarterly report demonstrating those assets that have been acquired and disposed of during the quarter.

Target Completion Date: 4/10/03 (The first report will include all asset acquisitions and disposals for FY03 to date)

Benefits/Costs: The benefit of the additional report will ensure that department heads are routinely aware of the acquisitions and disposals that occur within their department. This in addition to the Reconciliation Status Report will provide department heads with the tools to manage their Fixed Asset Programs. There are no costs associated with the implementation of this quarterly report.

Recommendation D: DOF should work with County departments and the Real Estate division to document presently unknown land values and verify continued County ownership.

Response: Concur - in process. The Real Estate division within the DOF has initiated the review of all land values and status of ownership. Please note, the DOF is relying upon information from the Parks Department.

Target Completion Date: Information represented in the FY03 CAFR.

Benefits/Costs: Conducting a review of county owned land will ensure accurate financial information is reported. There are no costs associated with implementing this recommendation.

Recommendation E: DOF should update the Fixed Asset Property Manual to include the differences between land assets and easements, and steps necessary to reconcile temporary fixed asset numbers.

Response: Concur (in part) - completed. The Fixed Asset Property Manual contains a section entitled "INFRASTRUCTURE FIXED ASSETS". This section discusses the infrastructure assets that are now reported as a result of GASB Statement No. 34. The Fixed Asset Property Manual will not be updated to include a section on reconciling temporary fixed asset numbers. The temporary asset numbers were assigned in prior years. As a result of enhanced processes and procedures, only 4 temporary asset numbers were assigned and immediately corrected in FY02. The temporary asset numbers will be corrected through a combined effort between the DOF and individual departments. Clear guidance will be provided to these departments during the correction phase.

Target Completion Date: 3/14/03

Benefits/Costs: There are no costs associated with implementing this recommendation.

Recommendation F: County Departments holding land assets should maintain appropriate documentation on all land assets and separately identify all easements for GASB 34 reporting purposes.

Concur - in process: The DOF has been working with McDOT and Flood Control for well over a year regarding infrastructure assets. GASB Statement No. 34 has allowed a phase in time thru FY2006 to report all infrastructure assets. The McDOT infrastructure was reported in the FY02 CAFR.

The Flood Control historical infrastructure assets have not yet been reported. However, the current year expenditures were included as CIP. It is anticipated that Flood Control historical infrastructure will be included before the final deadline of FY2006. The Fixed Asset Property Manual contains a section entitled "INFRASTRUCTURE FIXED ASSETS". This section discusses the infrastructure assets that are now reported as a result of GASB Statement No. 34.

Target Completion Date: 3/14/03 (Property Manual placed on ebc)

Benefits/Costs: There are no costs associated with implementing this recommendation.

Issue #3 Asset Disposal

Our review of asset disposals found that disposal forms are processed timely, assets are accurately removed from the FASS, and assets are disposed of only after exhausting their utility. However, many assets still in service were removed from the FASS in error. Also, 85 per cent of County assets are disposed during the year-end inventory process, which decreases accountability and causes lost and stolen assets to be underreported. DOF should make appropriate changes to the Fixed Asset Property Manual and training class curriculum and develop a plan to ensure those department managers actively review disposal forms prior to processing.

Response: Concur

Recommendation A: DOF should consider developing a procedure to record asset disposal on a more timely and accurate basis and reflecting these changes in the Fixed Asset Property Manual.

Response: Concur - completed. The DOF has included the following statement within the Fixed Asset Property Manual - "Departments are strongly encouraged to submit disposition forms at the time of disposal and not wait until the year-end validation process."

Target Completion Date: 3/14/03 (Property Manual placed on ebc)

Benefits/Costs: There are no costs associated with implementing this recommendation.

Recommendation B: DOF should consider revising the Fixed Asset Property Manual to include a link or reference to Administrative Policy A2230 (reporting lost/stolen items) and incorporating these procedures in the DOF quarterly fixed asset training.

Response: Concur - completed. The DOF has included the following statement within the Fixed Asset Property Manual - "When a department disposes of an asset due to it being lost, stolen or damaged, the responsible department must comply with Administrative Policy A2230 Self Insured Property Coverage and Deductible Policy."

Target Completion Date: 3/14/03 (Property Manual placed on ebc)

Benefits/Costs: There are no costs associated with implementing this recommendation.

Recommendation C: DOF should consider initiating a process to identify assets lost or stolen during the FA cycle.

Response: Concur. Although the DOF cannot take responsibility for the actions of the individual departments, the DOF will prepare and submit a quarterly report demonstrating those assets that have been acquired and disposed of during the quarter. The report will be distributed to Department Directors, Elected Officials and Chief Officers. The report will include the disposition type to provide department heads with the information necessary to make sound decisions.

Target Completion Date: 4/10/03 (The first report will include all asset acquisitions and disposals for FY03 to date)

Benefits/Costs: The benefit of the additional report will ensure that department heads are routinely aware of the acquisitions and disposals that occur within their department. This in addition to the Reconciliation Status Report will provide department heads with the tools to manage their Fixed Asset Programs. There are no costs associated with the implementation of this quarterly report.

Issue #4 Asset Disposal - Data Security

This area is not being responded to by the DOF as the CIO is addressing the issues.

Approved By:



Chief Financial Officer

2/21/03
Date



County Administrative Officer

2/24/03
Date

**CIO OFFICE
AUDIT RESPONSE
Countywide Fixed Asset Audit**

Issue #4: Asset Disposal: Data Security

The County has not developed formal policies and procedures to ensure that data and applications are completely deleted from retired personal computers. Our testing recovered files from personal computers surplused to the Maricopa County Sheriff Office (MCSO) warehouse. Proprietary or sensitive County information residing on surplused personal computer hard drives could become available to third parties. The County Chief Information Officer should coordinate the establishment of comprehensive data destruction policies and procedures.

Recommendation A:

The County CIO should:

Encourage PC/LAN groups to develop a standard set of policies and procedures for personal computer retirement and hard drive data destruction. The policies should include appropriate software tools and related data destruction procedures.

Response: Concur. The Office of the CIO will assist Materials Management (County Public Records Officer) to enhance the existing policy A2105 (Records Destruction) by adding the necessary text to address disposition of electronic records contained within County computing resources. This will include disposition of electronic records at end retention cycle and the destruction of electronic records at the time of disposal of County computing resources.

Upon review of the preliminary audit finding, this topic/activity was discussed with the PC/LAN managers at their 10/10/02 meeting led by the Office of the CIO. It was determined that a subcommittee should be formed to address the standards/procedures/guidelines (including tools) for data destruction. The policy issue will be addressed in activity outlined in item "B". The PC/LAN managers will be briefed on the status of the policy issue and when appropriate, will convene this subcommittee. It is anticipated that this activity will be completed no later than ninety days after item "B" is completed to ensure compliance with the policy(s). (UPDATE 3/3/2003 Note: we will attempt to complete this item 30 days after the completion of the policy in Recommendation "B".)

Target Completion Date:

11/03/2003 (Policy)

10/1/2003 (PC/LAN tools, standards, procedures, etc. for data destruction)

Benefits/Costs: Improve security of County Data Assets

Recommendation B

Develop criteria for data destruction that takes into consideration department data sensitivity. Certain departments may have highly sensitive data on hard drives that

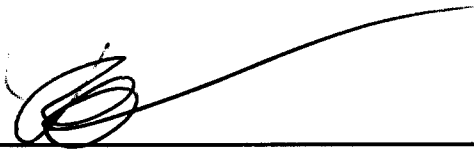

would necessitate destruction of the hard drive to prevent accidental disclosure of the data.

Response: Concur. The Office of the CIO will develop a new enterprise-level policy to address "Data Classification". It is anticipated that the completion of this policy will be 3/31/03. The office will work with Materials Management to enhance their existing policies on asset management. In addition OCIO will enhance the current policy A1604 (Software Copyright and License Compliance) by adding the necessary text describing the disposition of software at time of disposal of County computing resources.

Target Completion Date: 9/1/03

Benefits/Costs: Improve security of County Data Assets

Approved By:

 _____ Chief Officer	<u>3/3/03</u> Date
 _____ County Administrative Officer	<u>3/6/03</u> Date